Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY2017 Single Audit Report)

2017-101
CFDA numbers and names: Various
Award numbers and years: Various
Federal agencies: Various
Compliance requirement: Allowable costs/cost principles
Questioned costs: Unknown

Finding
Criteria—In accordance with 2 U.S. Code of Federal Regulations (CFR) §200.405(a), costs charged to federal programs should be based on the relative benefits received.
Condition and context—The State did not comply with the allowable costs/cost principles requirements with respect to the following legislatively mandated transfers:

- Senate Bill 1522 of the 53rd Legislature, First Regular Session, Chapter 305, §2, and House Bill 2695 of the 52nd Legislature, Second Regular Session, Chapter 117, §158, mandated transfers from various state funds to the State's automation projects fund.
- House Bill 2695 of the 52nd Legislature, Second Regular Session, Chapter 117, §§8 and 156, mandated transfers from the special employee health insurance trust fund and the State's automation operations fund to the State's general fund to help provide support and maintenance for state agencies.

Further, the Department of Public Safety (Public Safety) and the Department of Child Safety (Child Safety) transferred monies from their risk management fund to a fund to pay department-wide administrative costs.

A portion of these monies transferred included federal monies and was therefore unallowable since the transfers were not based on the relative benefits received for federal programs the State administered.

Effect—We were unable to determine the amount of questioned costs that resulted from this finding or to identify all the federal programs this finding affected because the State's Department of Administration (Department) has not finalized the calculation for the federal portion of these transfers that occurred during fiscal year 2017; however, it is estimated that questioned costs will exceed $25,000. Once calculated, this amount will be subject to the U.S. Department of Health and Human Services’ review and approval. This finding could potentially affect all federal programs administered by state agencies that had legislatively mandated or directed transfers.

Cause—The noncompliance for the mandated transfers resulted from state legislation and, therefore, was not caused by the federal programs’ administration. Further, for the Public Safety and Child Safety transfers, the noncompliance resulted from an agency decision to transfer monies that included federal monies from their risk management fund to a fund to pay department-wide administrative costs.

Recommendation—The State should ensure that legislatively mandated and directed transfers do not include federal program monies. In addition, the Department should monitor bills being considered in the Arizona State Legislature to help ensure that unallowable costs to federal programs will not be incurred in the future. Finally, the Department should ensure all agencies are aware that transfers that include federal monies should be based on the relative benefits received.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

The finding is similar to prior-year finding 2016-103.

Agency Response: Concur

We have an established process in place for monitoring legislation. On multiple occasions, we have advised that these transfers were, in our opinion, not consistent with established Federal cost principles and would probably result in an obligation to the Federal
government. Until the State changes its approach to the transfer of monies, there will likely continue to be disallowed costs which will require repayment with applicable interest.

This is a cross-cutting finding and is appropriately being addressed with the U.S. Department of Health and Human Services, Cost Allocation Services (DHHS-CAS) for the payment and appropriate resolution of the questioned costs. We agree and commit to continue to work with the DHHS-CAS and appropriate bodies within the State, to the best of our ability, to find an equitable resolution to this issue. It should be noted that the number of fund transfers required by legislation have diminished significantly.

2017-102
Cluster name: Special Education Cluster (IDEA)
CFDA numbers and names: 84.027 Special Education—Grants to States
84.173 Special Education—Preschool Grants
Federal agency: U.S. Department of Education
Compliance requirement: Level of effort
Questioned costs: None

Finding
Criteria—In accordance with 34 CFR §300.203(a), a local educational agency (LEA) is eligible to receive program monies only if the State determines that the LEA has demonstrated that it will meet its required level of effort. The State must provide LEAs the opportunity to meet the level of effort requirement based on the comparison of the following sources: (1) local funds only, (2) the combination of state and local funds, (3) local funds only on a per capita basis, and (4) the combination of state and local funds on a per capita basis. The LEA will have demonstrated that it met the required level of effort if at least one of the sources show that the LEA’s budgeted expenditures, for the education of children with disabilities, were not less than actual expenditures for the preceding fiscal year. Also, in accordance with 2 CFR §200.303, the Department of Education (Department) must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department did not have adequate policies and procedures to ensure that the LEAs were provided the opportunity to meet the level of effort requirement. Specifically, the Department did not permit LEAs to demonstrate that they met the required level of effort based on a comparison of local funds only or local funds only on a per capita basis.

Effect—The Department could have inappropriately denied federal monies to LEAs who were eligible to participate in the program.

Cause—The Department’s system was not designed for LEAs to separately identify local funds data. In addition, the Department was unaware it needed to provide LEAs the opportunity to meet level of effort requirements with all four options.

Recommendation—The Department should revise its policies and procedures to ensure that LEAs are provided the opportunity to demonstrate that they meet the level of effort requirement in accordance with federal regulations, including the use of local funds only or local funds only on a per capita basis.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2016-106.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and has implemented the recommendations. Exceptional Student Services (ESS) worked with the agency’s Information Technology (IT) personnel to allow a mechanism to collect local funds to be added to the ESS Maintenance of Effort application. This allows an option for local education agencies to submit local only funds if this information is appropriate and relevant. ESS also created policies and procedures that implement these functions as it relates to Individuals with Disabilities Education Improvement Act (IDEA) Maintenance of Effort testing.

2017-103
Cluster name: Special Education Cluster (IDEA)
Finding
Criteria—In accordance with 34 CFR §§300.705(a)-(b), 300.815, and 300.816, the Department of Education (Department) must distribute any monies it has not reserved for state administration or other state-level activities to eligible local educational agencies (LEAs) based on a formula specified in federal regulations. The formula includes a base payment amount calculated using historical grant award data that the Department must adjust annually based on criteria the regulations specify. In addition, the Department must distribute all remaining unused grant monies after adjustments to the LEAs based proportionally on the number of enrolled children with disabilities and the number of children living in poverty. Also, in accordance with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department did not have adequate policies and procedures to ensure that it distributed the appropriate amount of program monies to each LEA. Specifically, the Department’s method for calculating base payment adjustments did not follow the required formula for allocating program monies. In addition, the Department proportionately allocated unused program monies in the following fiscal year based on enrolled children with disabilities and the number of children living in poverty instead of proportionally redistributing those monies to eligible LEAs in the current fiscal year.

Effect—The Department may have distributed improper amounts of program monies to the LEAs. As the Department is currently in the process of recalculating the amount of program monies that may have been improperly distributed and due to the complexity of these calculations, it was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding.

Cause—The Department was unaware that it was using an incorrect method for calculating base payment adjustments and allocating unused program monies.

Recommendation—The Department should revise its policies and procedures to ensure that program monies are distributed to LEAs in accordance with federal regulations.

This finding is similar to prior-year finding 2016-105.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and has implemented the recommendations. ESS has implemented numerous policies and procedures for allocations related to the IDEA. These policies and procedures have been reviewed and approved by the Office of Special Education program and the finding was resolved per OSEP PDL Audit Control Number: 09-17-79534. This will resolve any ongoing issues to allocations for sequential fiscal years.
Criteria—In accordance with 34 CFR §300.163, the State must not reduce the amount of state funding made available for special education and related services for children with disabilities below the amount made available for the preceding fiscal year or the federal funding for this purpose could be reduced in the next fiscal year. The State must report the total amount of state financial support made available for these services on its annual state application under Individuals with Disabilities Education Act Part B, as amended in 2004. Also, in accordance with 2 CFR §200.303, the Department of Education (Department) must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department included only monies available to the local educational agencies (LEA) when it calculated and reported the State’s financial support. In prior fiscal years, the Department had also included the amount of state monies made available to other state agencies for special education and related services for children with disabilities. Because the calculations of the State’s financial support were not consistent with the prior fiscal year, we were unable to verify that the State did not reduce the amount of state funding for these services.

Effect—The federal funding for special education and related services for children with disabilities could be reduced if the Department did not accurately calculate the amount of the State’s financial support for these services.

Cause—The Department did not have documented policies and procedures in place for calculating the amount of state support provided to LEAs or other state agencies or requiring a supervisory review of the calculations to determine the amounts were accurate and complete.

Recommendation—The Department should revise its policies and procedures to ensure that its calculation and reporting of the State’s financial support for special education and related services is accurate and complete. These policies and procedures should include an independent review of these calculations to ensure all of the State’s financial support for special education purposes are included and the calculations are accurate.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and will implement the recommendations. ESS is currently in the process of validating and implementing new policies and procedures as it relates to State Maintenance of Financial Support (MFS) for the IDEA. This item will be completed by the beginning of April and MFS may be recalculated for fiscal year 2017 if necessary. The Deputy Associate Superintendent and Director of Operations of ESS will work with the Office of Special Education programs to determine if that is necessary for the IDEA federal award submission for the upcoming fiscal year 2019 application.

2017-105
Cluster name: Special Education Cluster (IDEA)
CFDA Numbers and Names: 84.027 Special Education—Grants to States
84.173 Special Education—Preschool Grants
Federal Agency: U.S. Department of Education
Compliance Requirement: Earmarking and period of availability of federal funds
Questioned Costs: Unknown

Finding

Criteria—In accordance with 34 CFR §300.704, the Department of Education (Department) can use the maximum amount available, as identified in the grant award documents, for the administration of the special education program and for other state-level activities. According to 34 CFR §§76.703 through 76.710 and 2 CFR §200.343, the Department must obligate monies for these program activities during the 27 months, extending from July 1 of the fiscal year in which the monies are appropriated through September 30 of the second following fiscal year. The Department is required to liquidate all obligations incurred under the federal award no later than 90 days after the end of the award period and return any funds that are not obligated by the end of this period to the federal awarding agency. Also, in accordance with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal
award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department exceeded the maximum amount allowed to be spent for administration of the special education program for the federal 2014 grant award that ended during the fiscal year. Although, the Department made an adjustment to reclassify monies spent on administration to state-level activities, this reclassification occurred after the grant’s closeout period ended. In addition, the Department continued to pay salaries totaling $300,724 to employees who were not assigned to administrative functions for closing out the grant and instead provided services for state-level activities after the grant period ended.

Effect—The Department may have to reimburse the federal awarding agency for the costs incurred after the award period ended or costs in excess of the maximum amounts allowed.

Cause—The Department did not have adequate internal controls in place to ensure (1) the amount of program monies spent on administration or other state-level activities did not exceed the maximum allowed per the grant award agreement or (2) program monies were not charged or reallocated to a federal award after the award period ended.

Recommendation—The Department should implement policies and procedures to ensure the program costs for administration and state-level activities are tracked and monitored so costs do not exceed the amounts allowed per the grant award agreements and costs are not charged to the program after the end of the award period.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and will implement the recommendations. The Deputy Associate Superintendent and Director of Operations of ESS is currently modifying all budgeting and expenditures tracking policies and procedures. This is to ensure funds are spent in a timely fashion, expended to accurate accounting codes, and appropriately first in, first out (FIFO) funding sources. These policies and procedures are targeted to be done by June of 2018. The policies and procedures created will ensure ESS does not significantly overspend funds in the future and indicate timely journal entry adjustments when necessary.

2017-106
Cluster name: Special Education Cluster (IDEA)
CFDA Numbers and Names: 84.027 Special Education—Grants to States
84.173 Special Education—Preschool Grants
Award Numbers and Years: H027A140007, 2014; H027A150007, 2015; H027A160007, 2016; H173A140003, 2014;
Federal agency: U.S. Department of Education
Compliance requirement: Activities allowed or unallowed, allowable costs/cost principles, cash management, and reporting
Questioned costs: None

Finding

Criteria—In accordance with 2 CFR §200.405, the Department of Education (Department) should charge costs to a federal award only if the cost is incurred specifically for the federal award. Further, according to 31 CFR §§205.11, 205.12(b)(4), 205.15(a), and 205.33(a), the Department must request federal monies from the federal awarding agency in accordance with the funding technique agreed to in the Treasury-State Agreement. The technique agreed upon for the program is a pre-issuance methodology where the Department should request monies not more than three business days prior to the Department making a disbursement for program purposes. An interest liability may accrue if the Department receives federal monies prior to the day it pays out the funds for federal assistance program purposes. Also, in accordance with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.
Condition and context—The Department charged costs to the special education program and received funds in advance from the federal grantor to cover the costs of another federal program. The Department was reimbursed for the costs by the other federal program 3 to 6 months after the initial expense and request for monies occurred.

Effect—The Department used special education program monies to advance funds to another federal program, which may reduce the monies available for special education program use. In addition, the Department may be responsible for repaying interest to the federal awarding agency for the monies advanced but not used for program purposes.

Cause—The Department did not have internal controls in place to ensure that only costs that were for the benefit of the special education program were charged to that program and that requests for funds from the federal awarding agency were used to pay only special education program costs.

Recommendation—The Department should establish policies and procedures that ensure the special education program is charged for only costs specifically incurred for that program. In addition, to help ensure compliance with the Treasury-State Agreement, the Department should request program monies for only special education program disbursements.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with the finding and will implement the recommendation. The Deputy Associate Superintendent and Director of Operations of ESS will begin creating policies and procedures to interact with the agency finance department to ensure that special education federal awards are only charged for costs specifically incurred for that program. Additionally, this should ensure that ESS only requests program monies for only special education program disbursements from the federal grantor.

2017-107
CFDA number and name: 84.011 Migrant Education—State Grant Program
Award numbers and years: S011A140003, 2014; S011A150003, 2015; S011A160003, 2016
Federal agency: U.S. Department of Education
Compliance requirement: Special tests and provisions
Questioned costs: Unknown

Finding

Criteria—In accordance with the Elementary and Secondary Education Act (ESEA) §1304(b)(5), the Department of Education (Department) must determine the amount of subgrants it will award to local educational agencies (LEAs) by taking into account the following: (1) the numbers of migratory children, (2) the needs of migratory children, (3) the “priority of services” requirement in §1304(d), and (4) the availability of funds from other federal, state, and local programs. In addition, in accordance with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department did not have adequate policies and procedures to ensure that it determined the amount of subgrants to LEAs in accordance with federal regulations. Specifically, the Department did not consider the availability of funds from other federal, state, and local programs when determining subgrant amounts.

Effect—The Department may have distributed improper amounts of program monies to LEAs because there were no policies and procedures for how the Department should consider the availability of other funds from other federal, state, and local programs when determining the amount of subgrants to be awarded to LEAs.

Cause—The Department was unaware of the requirement to consider the availability of funds from other federal, state, and local programs. As a result, this requirement was not included in the Department’s policies and procedures.

Recommendation—The Department should revise its policies and procedures to ensure that it awards program monies to LEAs in accordance with federal regulations.
The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

**Agency Response: Concur**

The Arizona Department of Education (ADE) agrees with the finding and will implement the recommendation. The Migrant Education Program has been utilizing the same funding formula since 2008. This formula does not adequately take into account the availability of funds from other federal, state, and local programs when determining subgrant amounts. The Arizona Department of Education (ADE) has contracted Afton to review the Migrant Education Program funding formula and to assist us in making appropriate changes in policies and practices. Afton is working in conjunction with ADE and the Office of Migrant Education (OME) in order to ensure that this finding is resolved and the new funding formula is in compliance with federal requirements.

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**2017-108**

CFDA number and name: 84.011 Migrant Education—State Grant Program
Award numbers and years: S011A140003, 2014; S011A150003, 2015; S011A160003, 2016
Federal agency: U.S. Department of Education
Compliance requirements: Reporting and special tests and provisions
Questioned costs: N/A

**Finding**

Criteria—In accordance with the Elementary and Secondary Education Act (ESEA) §9303, the Department of Education (Department) must submit an annual consolidated state performance report (CSPR) that consists of information related to specific ESEA programs that the Department administers. As part of the CSPR, the Department is required to provide an unduplicated state-wide count of eligible migratory children and eligible migratory children who have been classified as having “priority for services” as defined in ESEA §1304(d). In accordance with ESEA §1304(c)(d), the federal awarding agency may use the number of migratory children reported in the CSPR to determine the State’s annual allocations. In addition, in accordance with 34 CFR §200.89(d), the Department must establish and implement a system of quality controls to properly identify eligible migratory children in the State. The Department is required to report in the CSPR its quality control process that ensures an accurate count of eligible migratory children. Further, in accordance with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department was unable to support the numbers reported in the CSPR for the unduplicated state-wide count of eligible migratory children and for eligible migratory children who have been identified as having “priority for services.” In addition, the Department was unable to provide documentation to support that it accurately reported its quality control process in the CSPR.

Effect—The Department may have reported an inaccurate count of eligible migratory children in the CSPR, which could have an impact on the annual allocations the Department receives from the federal awarding agency.

Cause—The Department did not have adequate policies and procedures to require that documentation was always maintained to support the information reported in the CSPR.

Recommendation—The Department should establish policies and procedures, which should include review and approval of the CSPR to ensure the information reported is accurate and complete and its quality control process is in accordance with federal regulations.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

**Agency Response: Concur**

The Arizona Department of Education (ADE) agrees with this finding and will implement the recommendation. Prior to 2017-2018, the Migrant Education Program contracted Statewide Services to manage all migrant data and to provide all reports and substantiate entries for the consolidated state performance report (CSPR). Statewide Services did not utilize appropriate policies and procedures in data management and the Migrant Education Program did not effectively monitor their practices. Due to this, the contract was
ended on June 30, 2017 and all data management was moved internally to the State Migrant Education Program. Data management for the Migrant Education Program will be done by the Migrant Data Specialist, now an internal position, managed and monitored by the State Migrant Director. In addition, a new data vendor MS/EDd was contracted who has helped ADE to establish concrete policies and develop the appropriate reports for the CSPR data.

| 2017-109 |
| CFDA number and name: 84.011 Migrant Education—State Grant Program |
| Award numbers and years: S011A140003, 2014; S011A150003, 2015; S011A160003, 2016 |
| Federal agency: U.S. Department of Education |
| Compliance requirement: Procurement |
| Questioned costs: Unknown |

**Finding**

Criteria—In accordance with 2 CFR §200.317, the Department of Education (Department) must use the same policies and procedures it uses for procurements from non-federal monies when procuring property and services from program monies. In addition, State Procurement Code §R2-7-E303 requires the Department to maintain a record of all competition impracticable procurements that includes a written explanation justifying the need for procuring goods and services with this procurement method. Further, in accordance with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—For one of two contracts tested, the Department did not document why the competition impracticable procurement method was appropriate for the services purchased.

Effect—The Department could enter into a contract that is not the most advantageous to the federal program. As there was a lack of documentation, we were unable to determine questioned costs, if any, that may have resulted from this finding.

Cause—The Department did not follow its policies and procedures that required maintaining documentation supporting its procurement determinations when procuring services with program monies.

Recommendation—To help ensure that it obtains the most advantageous price for goods and services purchased with program monies, the Department should follow its purchasing policies and procedures and maintain documentation to support its procurement determinations.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

**Agency Response: Concur**

The Arizona Department of Education (ADE) agrees with this finding and will implement the recommendation. The Migrant Education Program did not adequately monitor its contracts to ensure they were following appropriate procurement policies for purchasing and renewal. All contracts have been reviewed and for the services where an outside vendor was still appropriate, a Request for Quote (RFQ) or Request for Proposal (RFP) process was implemented. The State Migrant Director and the Deputy Associate Superintendent for the Migrant Education Program will continue to review all annual contracts in January and will work closely with Procurement to ensure compliance.

Additionally, ADE’s Office of Procurement has adopted a policy in which the determination and supporting information for competition impracticable contracts is included in the shared drive in both a folder for determinations, with the Competition Impracticable identified by number and service, and the folder for the contract, identified by number assigned in the electronic procurement system and vendor. Additionally, the signed copy of any determination and supporting information will be included in the contract folder, identified by the same contract number as the electronic version, containing the printed version of the contract. The signed determination will also be uploaded into the electronic procurement system, although they will not be made visible to vendors.
Finding

Criteria—In accordance with 7 CFR §226.6, the Department of Education (Department) must establish application review procedures to determine the eligibility of subrecipients awarded program monies. Further, in accordance with 7 CFR §226.15-19, subrecipients must submit specific required eligibility information with their application to the Department demonstrating their capability to operate the program in accordance with federal regulations. Additionally, in accordance with 7 CFR §226.18, the Department must obtain and approve the written agreements that subrecipients enter into with each of their sponsored day care homes ensuring that they contain required rights and responsibilities of the parties participating in the program. Lastly, in accordance with 7 CFR §226.16, subrecipients are eligible to participate in the program only if the budgeted administrative costs do not exceed 15 percent of estimated program reimbursements. Subrecipient budgeted administrative costs may exceed the limit if the Department determines that the subrecipient will have adequate funding to provide meals to participants and waives the requirement. The Department must document this waiver and submit it to the federal grantor.

Condition and context—During fiscal year 2017, the Department disbursed over $51 million in program monies to a total of 332 subrecipients for this program but did not collect all of the eligibility information required to demonstrate each subrecipient’s capability to operate the program in accordance with federal regulations. Specifically, for 319 subrecipients, which were child or adult day care centers, at-risk afterschool programs, or emergency shelters, referred to as centers, the Department’s application forms did not include a question for subrecipients to identify the source of non-program monies that could be used to pay for program costs that would be unallowable uses of federal monies. In addition, for 13 subrecipients, which were sponsoring organization of day care homes, the Department approved written agreements between subrecipients and their sponsored day care homes that did not contain all the required rights and responsibilities. Further, for 2 of 5 subrecipient center applications tested, the Department did not review the applications to ensure that the written notification of the authority of state and federal officials to make reviews of centers explicitly stated the right of other state and federal officials to conduct such reviews. Finally, the Department did not have procedures to review center applications to ensure that participant budgeted administrative costs did not exceed the federally mandated limit.

Effect—Federal monies could have been awarded to subrecipients who were ineligible to participate in the program. As the Department’s application form did not collect all required information to determine all eligibility requirements were met, it was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding.

Cause—The Department’s application form and review procedures did not contain enough detail to ensure that all eligibility requirements were met prior to awarding federal monies to its subrecipients. The Department was unaware that the applications were improperly designed and their review process was insufficient.

Recommendation—The Department should revise its application form and existing procedures to ensure that all eligibility requirements are met prior to awarding federal monies to its subrecipients. In addition, the Department should revise its review procedures to ensure that the subrecipients’ written agreements with their sponsored day care homes contain the required rights and responsibilities. Finally, the Department should revise its review procedures to ensure that budgeted administrative costs are limited or written waivers are granted in accordance with the requirements of 7 CFR §226.16.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2016-104.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and has implemented the recommendation. Analysis of the budgeted administrative costs showed that the calculations were performed incorrectly and as soon as the program area was notified of the error, the spreadsheet used to perform the calculations was corrected. However, because of a timing issue, the error reoccurred.
during the time period covered by the current audit. The new application and renewal application is calculating costs correctly, and the internal reporting of the administrative costs has been updated with the new calculation. Additionally, subrecipients’ written agreements with their sponsored day care homes must contain the required rights and responsibilities.

2017-111
CFDA number and name: 10.558 Child and Adult Care Food Program
Award numbers and years: 7AZ300AZ2, 2015, 2016, 2017; 7AZ300AZ4, 2014, 2015, 2016, 2017
Federal agency: U.S. Department of Agriculture
Compliance requirement: Reporting
Questioned costs: None

Finding

Criteria—In accordance with 7 CFR §226.7, the Department of Education (Department) must submit a monthly report of the Child and Adult Care Food Program (FNS-44) to the federal awarding agency. The FNS-44 report consists of data gathered from monthly reimbursement requests subrecipients submitted to the Department. Additionally, in accordance with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department did not always follow its procedures to ensure that support was maintained for FNS-44 reports the Department submitted and that review of the report was documented. Specifically, for one of six reports tested, the Department did not maintain support for the data reported in the May 2017 90-day FNS-44 report. Further, for one of six reports tested, the Department did not document the review of the November 2016 90-day FNS report.

Effect—The reports the Department submitted may have included errors or been incomplete.

Cause—The Department assigned report preparation responsibilities to a staff member who had not received timely training to ensure that supporting documentation was maintained for each FNS-44 report prepared. Further, the Department's procedure was to document the identity of the report preparer and reviewer in the FNS-44 report in the federal reporting system. However, due to staff turnover there was only one staff member with access to the federal reporting system and the Department had no alternative procedures to document separation of responsibilities between report preparation and approval.

Recommendation—To ensure the FNS-44 reports are accurate and complete, the Department should provide training to staff on existing procedures for maintaining support for reports and develop alternate procedures for documenting report preparation and approval by staff without access to the federal reporting system.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and has implemented the recommendation. During a time of transition of federal reporting to a department other than Health and Nutrition, policies were not appropriately followed. However, the reporting has been returned to the Health and Nutrition program area and staff have been trained to follow policies to ensure the proper submission and backup documentation occurs for the FNS-44 report.

2017-112
CFDA number and name: 10.558 Child and Adult Care Food Program
Federal agency: U.S. Department of Agriculture
Compliance requirement: Period of performance
Questioned costs: Unknown

Finding

Criteria—In accordance with 7 CFR §3016.23, the Department of Education (Department) must charge only costs resulting from obligations during the funding period unless permission is obtained to carry over unobligated balances. Additionally, in accordance
with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—For 1 of 25 payments tested, the Department charged payroll costs to the 2016 grant award that were incurred after the funding period ended on September 30, 2016. We performed additional procedures and determined that the Department paid salaries totaling $74,678 to employees providing services during the grant closeout period; however, the Department did not maintain documentation to support that those payroll costs were for grant closeout activities. The Department did not obtain permission to carry over unobligated balances.

Effect—The Department may have to reimburse the federal awarding agency for the costs incurred after the award period ended. As there was a lack of documentation, we were unable to determine questioned costs, if any, that may have resulted from this finding.

Cause—The Department did not have adequate internal controls in place to ensure program costs were not charged to the federal award after the award period ended.

Recommendation—The Department should implement policies and procedures to ensure costs are not charged to a program after an award has ended unless the Department obtained permission to carry over unobligated balances.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and has implemented the recommendation. This finding occurred during a time of transition of staff from Health and Nutrition internal financial oversight to ADE’s financial department. During the transition, some duties were not clearly identified to staff. The transition is now final and duties are clearly identified with processes in place. The carry over funds will be clearly identified, obligated, and expended in the future, with policies followed.

2017-113
Cluster name: Student Financial Assistance Cluster
CFDA numbers and names: 84.007 Federal Supplemental Educational Opportunity Grants
84.033 Federal Work-Study Program
84.038 Federal Perkins Loan Program—Federal Capital Contributions
84.063 Federal Pell Grant Program
84.268 Federal Direct Student Loans
84.379 Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)
Award numbers and years: Various, 2017
Federal agency: U.S. Department of Education
CFDA numbers and names: 93.364 Nursing Student Loans
93.925 Scholarships for Health Professions Students from Disadvantaged Backgrounds
Award numbers and years: Various, 2017
Federal agency: U.S. Department of Health and Human Services
Compliance requirement: Special tests and provisions
Questioned costs: N/A

Finding

Criteria—For the Federal Direct Student Loan program, 34 CFR §685.300(b)(5) requires institutions to reconcile institutional records monthly with direct loan funds received from the Secretary of Education and direct loan disbursement records submitted to and accepted by the Secretary. Further, in accordance with 2 CFR §200.303, the Universities must establish and maintain effective internal control over their federal awards that provides reasonable assurance that the Universities are managing the awards in compliance with federal statutes, regulations, and the award terms and conditions.
Condition and context—Northern Arizona University (University) did not have adequate internal control procedures to ensure it performed and documented monthly reconciliations of direct loan funds received and disbursed to the University’s records. Specifically, for all five months tested, the University did not maintain documentation that it had performed the reconciliations.

Effect—The University did not comply with the borrower data transmission and reconciliation requirements of 34 CFR §685.300(b)(5), which could result in the University not detecting and correcting discrepancies in a timely manner between direct loan funds received and disbursed and its records.

Cause—The University did not have adequate internal control procedures to ensure it performed and documented the monthly reconciliations.

Recommendation—The University should develop and implement internal control procedures to ensure it performs and documents monthly reconciliations of direct loan funds received and disbursed to its institutional records in accordance with the borrower data transmission and reconciliation requirements of 34 CFR §685.300(b)(5). Specifically, the University must be able to account for any differences between the direct loan funds received and disbursed on each monthly school account statement and the University records. In addition, the University should document the reasons for the differences and resolve them as applicable, as part of the monthly reconciliation process.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan at the end of this report.

Agency Response: Concur

Northern Arizona University will address, by the anticipated completion date of May 1, 2018, the Federal Direct Student Loan (DL) program monthly reconciliation issue noted by the auditors. While most aspects of DL reconciliation have been performed monthly, we concur that documentation of those activities is lacking. We also concur that the reconciliation activities have not been as thorough as outlined in the Federal Student Aid Handbook. However, this has not resulted in any inappropriate federal expenditures, and each award year’s DL ending cash balance has been zero, in both Department of Education records and institutional records, by the respective award year closeout date.

We are developing internal controls within the Office of Scholarships and Financial Aid (OSFA) to ensure monthly DL reconciliation is performed and documented according to federal requirements. Any and all cash differences will be explained each month. Review and explanation of student and cash differences will be evidenced by signature and review date of both the reviewer and a member of OSFA management.

2017-114
CFDA number and name: 93.658 Foster Care—Title IV-E
Award numbers and years: 1601AZFOST, 2016 1701AZFOST, 2017
Federal agency: U.S. Department of Health and Human Services
Compliance requirement: Eligibility
Questioned costs: Unknown

Finding

Criteria—In accordance with 45 CFR §1356.30(f), for a child care institution such as a foster care group home to be eligible for Title IV-E funding, the Department of Child Safety (Department) must address safety considerations associated with employees who have direct contact with children. The State’s safety consideration standards are outlined in A.R.S. §8-804(B)(3) and require the Department to complete a background check using the State’s central registry for all employees of contracted and subcontracted child care institutions that provide direct services to children. The background check must be completed within a reasonable period after their hire date. Further, in accordance with 45 CFR §75.303, the Department must establish and maintain effective internal control over the federal award that provides reasonable assurance that the Department is managing the federal award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department did not always follow its policies and procedures to ensure that it completed background checks of its contracted and subcontracted child care institutions’ employees within a reasonable period after their hire date.
Specifically, for six of the ten child care institutions tested, the Department did not complete 66 of 709 employees’ background checks until 2 to 98 months after the employee’s hire date. The Department subsequently performed background checks on all child care institution employees between December 2017 and January 2018. In addition, for 2 of the 66 employees, the employee did not pass the background check and worked with foster care children for 3 to 4 months before they were terminated.

Effect—The Department paid the six child care institutions an estimated $9,226,730 in federal monies for maintenance payments when the institutions were in noncompliance during the audit period July 1, 2016 through June 30, 2017. The majority of the background checks were completed after the audit period, and therefore, the Department continued to pay these child care institutions federal funds in the following fiscal year.

Cause—The Department did not maintain documentation for long-term employees who were previously verified and did not enforce its existing policies and procedures to perform background checks of new hires at child care institutions within a reasonable period after their hire date.

Recommendation—The Department should ensure that child care institutions submit new hire information within 5 days and the department performs and completes background checks of the new hires at child care institutions within 2 weeks of their hire date. Also, the Department should review its current records of all child care institutions to verify they are complete and employees’ information is current. In addition, the Department should make maintenance payments only to child care institutions that have met all the required federal compliance requirements, and the Department’s records should include documentation that these compliance requirements have been met.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2016-112.

Agency Response: Concur

The Department of Child Safety (Department) acknowledges the discrepancies in verification of completed background checks to Child Welfare Provider staff during the audit period. During the audit the Department completed Central Registry checks on employees identified as missing a Central Registry check and no employees were known to the Central Registry system, meaning no employee had a substantiated child abuse or neglect report.

The Department will implement the following action items:

- Implement electronic database for group homes to submit background check requests. The Department has begun the implementation of an electronic database (Database) for group homes to enter all newly hired, rehired and current employees for requesting a Central Registry and Fingerprint background check. The Database communicates with the Department of Public Safety (DPS) on a daily basis to notify the Department of any incomplete, pending, denied or revoked fingerprint clearance cards. The Database will facilitate better recordkeeping on the part of the Department and the group home provider.
- Amend group home contract. The Department will issue a contract amendment to all contracted group home providers to require the submission of monthly rosters to the Department on the first of every month.
- Reconcile group home roster with electronic database on a monthly basis. The Department will receive and reconcile monthly group home rosters with the Database to ensure all reported employees/volunteers detailed on the roster have been entered into the Database. The Department will continue to reconcile and work with group home providers to ensure all staff providing direct care have valid background clearance checks completed.

**Finding**

2017-115
CFDA number and name: 93.659 Adoption Assistance
Award numbers and years: 1601AZADPT, 2016 1701AZADPT, 2017
Federal agency: U.S. Department of Health and Human Services
Compliance requirement: Cash management
Questioned costs: None
Criteria—In accordance with 31 CFR §§205.11, 205.12(b), and 205.33(a) the Department of Child Safety (Department) must request federal monies in accordance with the funding techniques agreed to in the Treasury-State Agreement. The Department uses the average clearance methodology to request funding from the federal agency for its payments to vendors and service providers. For the average clearance methodology, the Department should request funds for only the exact amount of the disbursements to be paid in 4 days. Additionally, in accordance with 45 CFR §75.303, the Department must establish and maintain effective internal controls over the federal award that provides reasonable assurance that the Department is managing the federal award in compliance with federal statutes, regulations and the award terms and conditions.

Condition and context—The Department did not always follow the cash management funding technique pattern outlined in the State of Arizona’s Treasury-State Agreement when requesting federal funds for payments to its vendors and service providers. Specifically, for one of eight cash drawdowns tested, the Department drew down more than the amount required to meet its expected cash management needs. Also, the Department maintained positive cash balances throughout the audit period July 1, 2016 through June 30, 2017 that averaged $427,335 up to $9,590,176. The larger balances were reduced within 1 to 2 business days exceeding the required 4-day average clearance methodology. However, the Department maintained an average balance of $1,242,034 for 90 days, another $815,700 for 27 days, and $427,335 for 36 days.

Effect—The Department did not comply with the required cash-management funding technique outlined in the Treasury-State Agreement, which resulted in the Department maintaining positive cash balances for the program for a total of 153 days. The Department remitted interest earned back to the federal government for these positive cash balances.

Cause—The Department did not follow the State’s policies and procedures to ensure cash drawdown requests followed the proper funding techniques outlined in the Treasury-State Agreement.

Recommendation—To help ensure compliance with the Treasury-State Agreement, the Department should follow the State’s policies and procedures to ensure the amount of cash drawdown requests is calculated based on the approved funding techniques and provide training to staff responsible for preparing the drawdown requests. Also, future cash drawdown requests should be reduced for any positive cash balances to ensure monies requested are for the Department’s immediate cash needs. In addition, a knowledgeable employee should review and approve cash drawdown requests to ensure they comply with the Department’s cash management funding techniques and are compared to the program’s cash balances.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2016-114.

Agency Response: Concur

Following the FY 2016 Single Audit, the Department strengthened procedures and protocols for cash processing. The improvement in cash management is visible in the Department’s performance for FY17. The Department’s performance on provider EFT enrollment reduced Treasury State Agreement draw pattern from four to two days, which will significantly help in future.

The Department will implement the following action items:

- Reconcile the Department’s sub-funds.
- Create a daily query for cash balances to monitor cash per grant and to accompany request for draw prior to approval.
- Cross train new team members on cash management process.
- Complete visual monitoring of fund balances.
- Update desk procedure on Federal cash draw process to reflect new Treasury State Agreement.
- Update federal cash draw process flow charts to reflect new Treasury State Agreement.

2017-116

CFDA number and name: 93.659 Adoption Assistance
Award numbers and years: 1601AZADPT, 2016 1701AZADPT, 2017
Federal agency: U.S. Department of Health and Human Services
Compliance requirement: Matching
Questioned costs: None
Finding
Criteria—In accordance with 42 United States Code (USC) 674(a)(1) and 45 CFR §1356.60(a), the Department of Child Safety (Department) must match adoption assistance subsidy payments by the Federal Medical Assistance Program (FMAP) percentage. Further, in accordance with 45 CFR §75.303, the Department must establish and maintain effective internal control over the federal award that provides reasonable assurance that the Department is managing the federal award in compliance with Federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department did not have adequate internal control policies and procedures in place to review and monitor its matching requirements for the adoption assistance program. To ensure that the program is matched at the proper FMAP rate, the Department sets up its account codes to proportionately pay for expenditures with both federal and state dollars in accordance with the FMAP rate. However, the Department did not apply the correct FMAP rate to match the adoption assistance subsidy payments. As a result, the Department did not meet the required state matching percentage for its federal fiscal year 2016 grant when the expenditures were incurred. The Department subsequently corrected the $3,119,528 error within the grant’s award period after we brought it to their attention.

Effect—Failure to properly monitor matching expenditures could result in noncompliance with the program’s matching requirements and potential questioned costs.

Cause—The Department had ineffective procedures to ensure that staff monitored matching requirements. Further, the Department did not perform a reconciliation of grant expenditure activity to verify the correct matching amount was met.

Recommendation—To help ensure that the program’s matching requirements are met, the Department should strengthen its policies and procedures over monitoring, reviewing, and reconciling its matching requirements to its accounting records.

The Department’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Department developed a series of queries to monitor compliance with the matching requirements. The Department is also reconciling grants monthly to make sure it is compliant with this requirement. Identified discrepancies during these processes are identified and corrected immediately.

- Develop queries for monitoring matching requirements per grant.
- Create desk procedure on matching requirements monitoring.
- Create check list and protocol on year-end close activities, for grants full reconciliation and closure.
- Complete monthly grant reconciliation.

2017-117
Cluster name: TANF Cluster
CFDA number and name: 93.558 Temporary Assistance for Needy Families
Award numbers and years: 1502AZTANF, 2015; 1602AZTANF, and 1602AZTAN3, 2016; and 1702AZTANF, and 1702AZTAN3, 2017
CFDA number and name: 93.658 Foster Care—Title IV-E
Award numbers and years: 1601AZFOST, 2016 1701AZFOST, 2017
CFDA number and name: 93.659 Adoption Assistance
Award numbers and years: 1601AZADPT, 2016 1701AZADPT, 2017
CFDA number and name: 93.667 Social Services Block Grant
Award numbers and years: G1501AZSOSR, 2015; G1601AZSOSR, 2016; G1701AZSOSR, 2017
Federal agency: U.S. Department of Health and Human Services
Compliance requirement: Allowable costs/cost principles
Questioned costs: $750,000

Finding
Criteria—In accordance with 2 CFR §200.303, the Department of Child Safety (Department) must establish and maintain effective internal controls over federal awards that provides reasonable assurance that the Department is managing the federal awards in compliance with federal statutes, regulations, and the award terms and conditions. Further, costs allocated to federal programs should be in accordance with the Department’s approved cost allocation plan to comply with 45 CFR §95.507. For example, expenditures processed through the Arizona Random Moment Sampling (ARMS) cost allocation method should be allocated to programs based on the percentage of services provided by employees when surveyed at a random moment in time.

Condition and context—The Department did not have proper internal controls over its allocation of indirect costs to federal programs. Specifically, the Department did not review and reconcile its monthly indirect cost allocations to ensure that the costs were allocated to the correct programs. As a result, allocations were not always accurate. For example, for 9 of 12 months tested, the Department’s indirect costs allocated through the ARMS cost allocation method were incorrectly calculated because services provided for the Foster Care—Title IV-E (Foster Care) program were included as services provided for the Social Services Block Grant (SSBG). For the period July 1, 2016 through June 30, 2017, the SSBG program was allocated approximately $750,000 in federal expenditures that should have been allocated and paid out of the Foster Care program.

Effect—The Department incorrectly allocated approximately $750,000 in federal expenditures to the SSBG program. Additionally, there is an increased risk that costs could be incorrectly allocated in the Department’s other cost pools to federal programs.

Cause—The Department did not have a process in place to reconcile its indirect cost allocations on a monthly basis.

Recommendation—To ensure compliance with federal requirements, a responsible employee should review and approve the cost allocation monthly. This includes recalculating the ARMS percentages that are used to allocate the indirect costs. Further, the Department should correct the error noted in the ARMS cost allocation pool for the Foster Care and SSBG programs.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Department will ensure that internal controls over the Cost allocation process are appropriate and in accordance with Federal regulations. Any discrepancies in allocation are identified and corrected immediately.

The Department will implement the following action items:

• Correct the identified IV-E discrepancy on the CB-496 report inception to date.
• Develop a monthly reconciliation process for pool distribution.
• Complete monthly post cost allocation run assurance that pools are cleared to zero.
• Create a desk procedure for cost allocation process.

2017-118
CFDA number and name: 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award numbers and years: H126A150002, 2015; H126A160002, 2016; and H126A170002, 2017
Federal agency: U.S. Department of Education
Cluster name: TANF Cluster
CFDA number and name: 93.558 Temporary Assistance for Needy Families
Award numbers and years: 1502AZTANF, 2015; 1602AZTANF and 1602AZTAN3, 2016; and 1702AZTANF and 1702AZTAN3, 2017
Federal agency: U.S. Department of Health and Human Services
Compliance requirement: Cash management
Questioned costs: N/A

Finding

Criteria—In accordance with 31 CFR §§205.11, 205.12(b), and 205.33, Subpart A, the Department of Economic Security (Department) must request federal monies in accordance with the funding techniques agreed to in the Treasury-State Agreement (TSA). In addition, in accordance with the TSA, Section 7.3, when applying funding techniques that require federal funds to be deposited in a state account on the average clearance day of payroll, the State shall request to receive the funds on Thursday of the week the payroll is paid.
Further, in accordance with 2 CFR §200.303 and 45 CFR §75.303(a), the Department must establish and maintain effective internal control over its federal awards that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department’s Financial Services Administration (FSA) did not follow the agreed upon TSA funding technique that requires the State to request funds to be received on Thursday of the week the payroll is paid. Specifically, for eight of nine Rehabilitation Services—Vocational Rehabilitation Grants to States and six of ten Temporary Assistance for Needy Families cash drawdowns examined containing payroll costs, the federal funds were deposited on Wednesday of the week the payroll was paid. The State’s payrolls are paid on Thursday of the week following the pay period end date.

Effect—Noncompliance with the clearance pattern agreed upon in the TSA. This finding could potentially affect all federal programs the TSA covers.

Cause—The FSA draws cash down on Wednesday of the week the payroll is paid to ensure cash needs are met for payroll payments on Thursday.

Recommendation—to help ensure compliance with cash management compliance requirements, the FSA should follow the TSA and request federal funds be transferred on the Thursday of the week the payroll is paid or the Department should work with the Treasury Department to revise its TSA to meet its cash needs.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

**Agency Response: Concur**

The Department of Economic Security concurs with finding; however, this is an issue that involves both federal and state agencies and is not within DES’ sole control to rectify. The Department will be requesting a meeting with the State’s General Accounting Office by the end of April, 2018 to discuss what will need to occur at both the federal and state level to ensure the processes align.

**2017-119**

CFDA number and name: 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States

Award numbers and years: H126A150002, 2015; H126A160002, 2016; and H126A170002, 2017

Federal agency: U.S. Department of Education

Compliance requirements: Activities allowed or unallowed, allowable costs/cost principles

Questioned costs: $24,726

**Finding**

Criteria—In accordance with 29 USC §723(a), vocational rehabilitation services are any services described in an individualized plan for employment necessary to assist an individual with a disability in preparing for, securing, retaining, or regaining an employment outcome that is consistent with the individual’s strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice. In addition, 34 CFR §361.46 requires each individualized plan for employment to include the specific rehabilitation services needed to achieve the employment outcome. Further, in accordance with 2 CFR §200.303, the Department of Economic Security (Department) must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department’s Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), did not adequately document in the recipients’ case records how services were necessary to assist individuals with a disability in preparing for, securing, retaining, or regaining an employment outcome. Specifically, for 2 of 25 program expenditures tested, the Administration did not document in the recipients’ case records how home modifications such as an electric gate and bathroom remodel totaling $24,073 and kitchen accessories totaling $478 assisted in an employment outcome.

In addition, the Administration advanced a recipient $175 to purchase clothing for a job interview; however, the Administration was unable to verify that the recipient used the program monies for the intended purpose, and/or collect any unspent portion because the recipient exited the program after receiving the advance.
Effect—Vocational rehabilitation funds may be used to pay for unallowed services.

Cause—The Administration’s policies and procedures require the recipients’ individualized plans for employment to document the rehabilitation services needed but do not require documentation of how the specific rehabilitation services help to achieve the employment outcomes. In addition, the Administration did not follow up with the recipient who exited the program.

Recommendation—To help ensure compliance with activities allowed or unallowed and allowable costs/cost principles compliance requirements, the Administration should document in the recipients’ case record how services will assist individuals with a disability in preparing for, securing, retaining, or regaining an employment outcome.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

In January 2018, the Department updated the policy chapter on Individualized Plan for Employment (IPE) to include a requirement to write an IPE Justification template describing the services planned and strengthened verbiage that requires the counselor to detail the requirement for the client to participate in services that contribute to the employment goal.

Additional activities planned:
- Reduce the Individualized Plan for Employment approval limit for counselors from $25,000 to $10,000. Any plan that exceeds $10,000 will require a high cost justification narrative which details the anticipated outcomes and service needs as they relate to obtaining employment. Supervisors will review and approve or disapprove the IPE.
- An escalation threshold has been developed to elevate approvals up through the management levels with every subsequent $10,000 of added services.
- Supervisors will conduct random sample reviews for each counselor on a quarterly basis to ensure that services provided are allowable and contribute to employment outcomes.

**2017-120**

CFDA number and name: 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States

Award numbers and years: H126A150002, 2015; H126A160002, 2016; and H126A170002, 2017

Federal agency: U.S. Department of Education

Compliance requirement: Eligibility

Questioned costs: $4,086

Finding

Criteria—In accordance with 29 USC §722(a)(1), an individual is eligible for assistance if the individual has undergone an assessment for determining eligibility and vocational rehabilitation needs and as a result has been determined to be an individual with a disability under 29 USC §705(20)(A). In addition, in accordance with 29 USC §722(a)(6), the Department of Economic Security (Department) must determine whether an applicant is eligible for vocational rehabilitation services within 60 days after the applicant has submitted an application for the services unless the Department and the applicant agree to an extension. Further, in accordance with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—For 1 of 40 applications tested, the Department’s Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), did not provide documentation of a completed assessment to determine an individual’s eligibility. In addition, for 3 of 40 applications tested, the Administration did not determine applicant eligibility within 60 days. Specifically, it took the Administration between 70 and 136 days to determine the applicant was eligible or close the case after determining the applicant was not eligible for the program.

Effect—Lack of disability verification may result in services provided to ineligible applicants. Furthermore, failure to make timely eligibility determinations may result in delayed services.

Cause—The Administration did not follow its policies and procedures when verifying applicant eligibility and did not react to system alerts that open applications were close to the 60-day eligibility determination requirement.
Recommendation—To help ensure compliance with eligibility requirements, the Administration should retain the completed assessments documenting the individual’s eligibility. In addition, to help ensure eligibility determinations are made within 60 days after the applicant has submitted an application or the applicant has agreed to an extension, the Administration should provide adequate supervision of its case workers and enforce its policies and procedures to follow up on computer information system alerts that open applications were close to the 60-day eligibility determination requirement. If the eligibility determination cannot be completed within the 60-day period, the applicant and Administration should agree to an extension.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2016-115.

Agency Response: Concur

During the last several months the Department has implemented all required actions to appropriately monitor IPE compliance. Specifically, the Department:

- Is performing management reviews of eligibility compliance statistics on a weekly basis, effective June 2016.
- Developed an eligibility compliance data tool to accurately pull data for review of eligibility compliance at both a regional and office level.
- Provided mandatory Eligibility Compliance training to all newly hired supervisors and counselors. The course is followed by a mandatory Eligibility Compliance test with a requirement to pass the test with a 100 percent accuracy. Quarterly training was implemented on April 1, 2017
- Began measuring the supervisor and counselor performance through a performance management tool to track compliance and institute Performance Improvement Plans with supervisors and counselors who are not meeting the 60 day eligibility timeframe or have failed to execute a valid eligibility extension with the required client signature. Performance management evaluation was fully implemented on March 23, 2017.
- The Department will continue to monitor the compliance through weekly and monthly metric measurements to ensure compliance.
- The Department will review quality assurance and performance reviews monthly and will provide staff training to specific personnel as necessary.
- The Department will re-evaluate compliance performance in June 2018 to determine if additional actions are needed to ensure compliance.

Finding

Criteria—In accordance with 29 USC §730(d), the Department of Economic Security (Department) must reserve and expend at least 15 percent of its Vocational Rehabilitation (VR) allotment to provide preemployment transition services to students with disabilities who are eligible, or potentially eligible, for VR services. Further, in accordance with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department’s Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), established policies and procedures for the earmarking compliance requirement in August 2016; however, those policies and procedures were not in place to ensure compliance with earmarking requirements for the 2015 grant award. For most of the grant’s award period, the Administration did not have a way to accurately monitor which of its expenditures were for the provision of pre-employment transition services to students with disabilities who were eligible or potentially eligible for VR services. For the 2015 grant award, the Administration reported it expended $7,033,303, or 11 percent, on pre-employment transition services on the final SF-425 Federal Financial Report for the period of October 1, 2014 through September 30, 2016.
Effect—Noncompliance with program requirements could result in not providing sufficient employment transition services to students with disabilities.

Cause—The requirement became effective in federal fiscal year 2015, at which time the Administration was not clear how to track pre-employment transition services to students with disabilities and did not establish policies and procedures to do so until August 2016.

Recommendation—To help ensure compliance with earmarking requirements, the Administration should reserve and monitor the VR allotment amount expended for pre-employment transition services to students with disabilities who are eligible or potentially eligible for VR services.

This finding is similar to prior-year finding 2016-116.

Agency Response: Concur

During the last several months the Department has fully implemented all required actions to ensure accurate earmarking. Specifically, the Department:

• Created separate budgets in AFIS in October, 2016, earmarking 15 percent of the State’s VR allotment for each fiscal year for the provision of services under pre-employment transition services. This ensures that required funds are reserved and expenditures are identified and tracked separately to meet the threshold.

• Developed a monthly expenditure report in April 2017 to track the data pertaining to pre-employment transition services. This information is shared with DES leadership at monthly budget review meetings.

• Developed a workshop curriculum and trained VR staff to provide the curriculum to potentially eligible students, effective March 2017.

Going forward, the Department will:

• Implement monitoring of field staff time records in October, 2017 to ensure appropriate time charging, with separate function codes for use when conducting pre-employment transition services for clients and potentially eligible clients.

• Develop a scope of work and solicit vendors in September, 2017 to provide pre-employment transition services to eligible and potentially eligible students.

2017-122
CFDA number and name: 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award numbers and years: H126A150002, 2015; H126A160002, 2016; and H126A170002, 2017
Federal agency: U.S. Department of Education
Compliance requirement: Reporting
Questioned costs: None

Finding

Criteria—In accordance with 34 CFR §361.240(a), the Department of Economic Security (Department) must establish procedures consistent with guidelines issued by the Secretary of Labor or the Secretary of Education to ensure that it submits complete annual performance reports that contain information that is valid and reliable, as required by the Workforce Innovation and Opportunity Act of 2014, §116(d)(5). Further, in accordance with 2 CFR §200.303, the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—For 2 of 25 cases tested, the Department’s Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), did not accurately report the correct dates of a service and a program outcome on the annual RSA-911 Case Service Report to the US Department of Education. Specifically, for data element 49, the date a recipient’s individualized plan for employment (IPE) was established was reported as 145 days later than the recipient’s records indicated, and for data element 195, the date a recipient was reported as being placed into employment was 2½ years later than the recipient’s records supported.
Effect—Incorrect reporting of data elements may misrepresent the Department’s Vocational Rehabilitation program performance.

Cause—For data element 49, when the IPE was created in fiscal year 2004, the Administration’s policies and procedures were unclear regarding when an IPE was considered completed and implemented. After the Administration clarified its policies and procedures it did not retroactively correct system data. For data element 195 the Administration did not follow its policies and procedures and follow up with the recipient every 90 days to assess the recipient’s progress in achieving an employment outcome.

Recommendation—To help ensure compliance with reporting requirements, the Administration should develop policies and procedures to accurately compile and report the RSA-911 data elements. In addition, for accurate performance reporting, the Administration should report the most recent or amended date when individuals enter an IPE and identify when individuals enter employment in a timely manner.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Department has developed a Quality Assurance review team and tool and is conducting a random sample review of each counselor’s cases every month. The Quality Assurance reviews began in February 2018. The Quality Assurance team conducts a review on accurate and timely record notation and data entry. Vocational Rehabilitation management receives a report indicating the Pass/Fail rate for each case reviewed. Staff will receive the outcome of the reviews and will receive counseling to improve accuracy as needed.

The Department updated the policy chapter on Individualized Plan for Employment (IPE) in January 2018 to strengthen language and describe how to update services and the requirement to monitor the IPE every 90 days.

2017-123
Cluster name: TANF Cluster
CFDA number and name: 93.558 Temporary Assistance for Needy Families
Award numbers and years: 1502AZTANF, 2015; 1602AZTANF and 1602AZTAN3, 2016; and 1702AZTANF and 1702AZTAN3, 2017
Federal agency: U.S. Department of Health and Human Services
Compliance requirement: Eligibility
Questioned costs: $2,477

Finding
Criteria—In accordance with 45 CFR §206.10(a)(8), each decision regarding eligibility or ineligibility must be supported by facts in the applicant’s or recipient’s case record. Further, in accordance with 45 CFR §75.303(a), the Department of Economic Security (Department) must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department’s Division of Benefits and Medical Eligibility, Family Assistance Administration (FAA) provided cash assistance to an applicant without adequately supporting its decision regarding the Temporary Assistance for Needy Families eligibility requirements. Specifically, for 1 of 40 case records examined, the FAA could not provide required documentation supporting the recipient was the child’s legal caretaker. Because the case record did not adequately support eligibility determination facts, the recipient’s cash assistance payments totaling $2,477 are questioned costs.

Effect—Noncompliance with eligibility compliance requirements and excess benefits may be issued to recipients.

Cause—The FAA case worker believed all supporting documentation was accounted for in the case file.

Recommendation—To help ensure the FAA makes accurate benefit payments and complies with eligibility compliance requirements, it should ensure that facts regarding eligibility determinations are properly supported and the support is retained in the recipients’ case records.
The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Department will issue a policy notification to all staff. This notification will include a reminder of the programmatic requirements for all TANF eligibility decisions related to determining a child’s relationship to the caretaker, which includes legal and blood relation. In the notification, it will also be stressed that the case record must include documentation that supports this requirement. All Supervisors must review policy notifications with their staff during their team huddles/team meetings. This additional information will also be shared with the Training Unit and they will review their TANF training materials to ensure the documentation requirements include the details required to support the TANF eligibility determinations.

2017-124
Cluster name: TANF Cluster
CFDA number and name: 93.558 Temporary Assistance for Needy Families
Award numbers and years: 1502AZTANF, 2015; 1602AZTANF and 1602AZTAN3, 2016; and 1702AZTANF and 1702AZTAN3, 2017
Federal agency: U.S. Department of Health and Human Services
Compliance requirement: Special tests and provisions
Questioned costs: $252

Finding

Criteria—In accordance with 42 USC §607(e), if an individual in a family receiving assistance refuses to engage in required work, the Department of Economic Security (Department) must reduce assistance to the family, at least pro rata, with respect to any period during the month in which the individual so refuses. Further, in accordance with 45 CFR §75.303(a), the Department must establish and maintain effective internal control over its federal award that provides reasonable assurance that the Department is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The Department’s Division of Benefits and Medical Eligibility, Family Assistance Administration (FAA), did not always reduce or halt Temporary Assistance for Needy Families benefit payments for individuals who did not comply with the Job Opportunities and Basic Skills Training (JOBS) working requirements. Specifically, for 1 of 40 case records examined, the recipient was issued a 25 percent noncompliance JOBS sanction notice; however, the recipient’s benefits were not reduced when the noncompliance was determined.

Effect—Noncompliance with 42 USC §607(e) and excess benefits of $252 were issued.

Cause—The FAA was unaware of the JOBS sanction notice. The FAA relies on a subrecipient to determine JOBS compliance and issue sanctions for this requirement. The subrecipient incorrectly removed the reduction and labeled the notice as an administrative error.

Recommendation—To help ensure compliance with 42 USC §607(e), the FAA should follow its policies and procedures to reduce recipients’ benefits when noncompliance is first determined. In addition, the FAA should ensure that each decision regarding compliance with 42 USC §607(e) is adequately applied to the recipients’ case record.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Department has developed the following action plan to ensure non-compliance sanction policy is followed by Jobs providers and the sanction notice is sent timely to FAA:
1. Issue policy broadcast to TANF Jobs providers on Sanction Policy
2. Reinsert assessment of the sanction process within the audit tool. This action includes:
   a. Training new Quality Assurance staff on policy;
   b. Modify existing reports / tools; and
   c. Communicate changes to the DERS contracts unit and Jobs providers.

2017-125
Finding

Criteria—It is critical that the Department of Economic Security (Department) have contingency-planning procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which include its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption. Contingency-planning procedures include having a comprehensive, up-to-date contingency plan; taking steps to facilitate activation of the plan; and having system and data backup policies and procedures.

Condition and context—The Department’s contingency plan lacked certain key elements related to restoring operations in the event of a disaster or other system interruption of its IT resources and did not include all systems. Also, although the Department was performing system and data backups, it did not have documented policies and procedures for performing the backups or testing them to ensure they were operational and could be used to restore its IT resources.

Effect—The Department risks not being able to provide for the continuity of operations, recover vital IT systems and data, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system and data recovery. This finding could potentially affect all federal programs the Department administers.

Cause—The Department is working on its multi year corrective action plan to remediate the deficiencies noted in a prior year.

Recommendation—To help ensure department operations continue in the event of a disaster, system or equipment failure, or other interruption, the Department needs to further develop its contingency-planning procedures. The Department should review its contingency-planning procedures against current IT standards and best practices, update them where needed, and implement them department-wide, as appropriate. The information below provides guidance and best practices to help the Department achieve this objective:

- Update the contingency plan and ensure it includes all required elements to restore operations—Contingency plans should be updated at least annually for all critical information or when changes are made to IT resources, and updates to the plan should be communicated to key personnel. The plan should include essential business functions and associated contingency requirements, including recovery objectives and restoration priorities and metrics as determined in the entity’s business-impact analysis; contingency roles and responsibilities and assigned individuals with contact information; identification of critical information assets and processes for migrating to the alternative processing site; processes for eventual system recovery and reconstitution to return the IT resources to a fully operational state and ensure all transactions have been recovered; and review and approval by appropriate personnel. The contingency plan should also be coordinated with incident-handling activities and stored in a secure location, accessible to those who need to use it, and protected from unauthorized disclosure or modification.
- Move critical operations to a separate alternative site—Policies and procedures should be developed and documented for migrating critical IT operations to a separate alternative site for essential business functions, including putting contracts in place or equipping the alternative site to resume essential business functions, if necessary. The alternative site’s information security safeguards should be equivalent to the primary site.
• Test the contingency plan—A process should be developed and documented to perform regularly scheduled tests of the contingency plan and document the tests performed and results. This process should include updating and testing the contingency plan at least annually or as changes necessitate, and coordinating testing with the entity’s other plans, such as its continuity of operations, cyber incident response, and emergency response plans. Plan testing may include actual tests, simulations, or tabletop discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. The test results should be used to update or change the plan.

• Train staff responsible for implementing the contingency plan—An ongoing training schedule should be developed for staff responsible for implementing the plan that is specific to each user’s assigned role and responsibilities.

• Backup systems and data—Establish and document policies and procedures for testing IT system software and data backups to help ensure they could be recovered if needed. Policies and procedures should require system software and data backups to be protected and stored in an alternative site with security equivalent to the primary storage site. Backups should include user-level information, system level information, and system documentation, including security-related documentation. In addition, critical information system software and security-related information should be stored at an alternative site or in a fire-rated container.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2016-121. This finding was also reported as a financial reporting finding. See finding 2017-05.

Agency Response: Concur

The Department has developed a detailed corrective action plan to address this finding and is aggressively working to correct all issues related to its IT contingency planning process. During the last several months the Department has implemented all required policies and procedures and completed a significant portion of its action plan and expects to fully implement the plan by July 1, 2018.

The Department has an Information Systems Contingency Planning Policy that was published November 2, 2016. In addition, an Information Systems Contingency Planning Procedure was published on August 18, 2017. The procedure documents the process for producing contingency plans, contingency test plans, and contingency testing. The procedure requires plans for the common network and each critical system or application within the department. Development of contingency plans is in process and will include the following elements:

• Identification of essential missions and business functions
• Identification of the business impact during contingencies
• Recovery objectives and priorities
• Roles and responsibilities during the recovery process
• Security safeguards during the contingency and recovery
• Contingency communications and training plans
• Contingency training
• Contingency plan testing
• Alternate storage sites
• Alternate processing sites
• Telecommunications services during the contingency
• Information system backups
• Information system recovery

2017-126
CFDA number and name: 93.092 Affordable Care Act (ACA) Personal Responsibility Education Program
Award number and year: 1601AZPREP, 2016
Federal agency: U.S. Department of Health and Human Services
Compliance requirements: Activities allowed or unallowed, allowable costs/cost principles, subrecipient monitoring
Questioned costs: $66,415

Criteria—In accordance with 2 CFR §200.331, the Department of Health Services (Department) must monitor its subrecipients’ activities to ensure that subawards are used for authorized purposes. In addition, according to 2 CFR §200.303, the Department must
establish and maintain effective internal control over its federal awards that provides reasonable assurance that the Department is managing the awards in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—During fiscal year 2017, the Department reimbursed ten subrecipients over $700,000 for federal program costs; however, the Department did not ensure that subrecipients used subawards for authorized purposes. Specifically, the Department collected an expenditure report from each subrecipient that included the current expenditures by budget line item and a statement from the subrecipient that assured the amounts were valid and based on the accounting records. Subsequently, the Department determined that one subrecipient was unable to provide detailed supporting documentation for $66,415 in program costs the Department reimbursed during fiscal year 2017.

Effect—Subrecipients could spend program monies on unallowable activities and costs. This finding has the potential to affect other federal programs the Department administers and subawards to other entities.

Cause—The Department relied on the subrecipients’ expenditure report certification assuring that monies were spent on allowable program activities and costs, and did not require the subrecipients to submit supporting documentation so the Department could perform a review for allowability.

Recommendation—The Department should establish policies and procedures to ensure reimbursements to subrecipients are for authorized program activities and costs. These procedures should include monitoring subrecipient activities to ensure reimbursements are adequately supported and are for authorized program purposes.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Department of Health Services has already taken the following steps to ensure that subrecipient activities are properly monitored and that reimbursements are adequately supported and for authorized program purposes. A CQI project was initiated during FY 2017 titled “Sub-recipient Monitoring & Oversight”.

The project team came up with the following recommendations:

- All Contractor Expenditure Reports (CER’s) submitted by subrecipients should include adequate supporting documentation to determine the allowability and allocability of all expenditures submitted for reimbursement. STATUS: Being rolled out initially to the Prevention Division, then to other divisions. Estimated Completion Date: 6/30/18
- The team provided procedures (Standard Work) for programs to follow in performing quarterly and/or annual monitoring activities to ensure that subrecipients are actually performing the work they are contracted to perform. STATUS: Being rolled out initially to the Prevention Division, then to other divisions. Estimated Completion Date: 6/30/18
- An Accountant 2 should be hired to centrally review all CER’s prior to payment to ensure that all expenditures are allowable, allocable, follow all federal grant guidelines and state policies, and have adequate supporting documentation. STATUS: Hired 3/26/18
- All applicable program staff, along with their subrecipients, should be trained on federal grant requirements (SuperCircular) and applicable State of Arizona accounting policies. Status: Being rolled out initially to the Prevention Division, then to other divisions. Estimated Completion Date: Ongoing, for continuity of operations and to ensure no future gaps as employees/sub-recipients come and go.